

STATE INDEBTEDNESS

Long Term Borrowing

General - The State Treasurer is responsible for the sale of debt obligations of the State and its various authorities and agencies. The State Constitution prohibits the creation of indebtedness of the State unless a bond law is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Certain general obligation bond programs receive revenues from sources other than the sale of bonds or the investment of bond proceeds.

The State has always paid the principal of and interest on its general obligation bonds, lease-purchase debt and short-term obligations, including revenue anticipation notes and revenue anticipation warrants, when due.

Commercial Paper Program - Pursuant to legislation enacted in 1995, voter approved general obligation indebtedness may be issued either as long-term bonds, or, for some but not all bond acts, as commercial paper notes. Commercial paper notes, once issued, may thereafter be currently refunded by the issuance of long-term bonds. The State intends to issue long-term general obligation bonds from time to time to retire its general obligation commercial paper notes. Pursuant to the terms of the bank credit agreement presently in effect supporting the general obligation commercial paper program, not more than \$1 billion of general obligation commercial paper notes may be outstanding at any time; this amount may be increased or decreased in the future. Commercial paper notes are deemed issued upon authorization by the respective Finance Committees, whether or not such notes are actually issued. As of October 1, 1996, the Finance Committees had authorized the issuance of \$3,577,694,000 of commercial paper notes, but as of that date only \$271,500,000 aggregate principal amount of general obligation commercial paper notes had actually been issued.

General Obligation Bonds - As of October 1, 1996, the State had outstanding \$17,514,241,000 aggregate principal amount of long-term general obligation bonds, and unused voter authorizations for the future issuance of \$7,888,864,000 of long-term general obligation bonds. This figure consists of \$3,577,694,000 of authorized commercial paper notes which had not yet been refunded by general obligation bonds, and \$4,311,170,000 of other authorized but unissued general obligation debt. See the table "Authorized and Outstanding State Debt" below.

Voters approved two general obligation bond measures totaling \$5 billion on March 26, 1996. Three bond measures totaling \$2.095 billion have been placed on the November 5, 1996 ballot.

Lease-Purchase Debt - In addition to general obligation bonds, the State builds and acquires capital facilities through the use of lease-purchase borrowing. Under these arrangements, the State Public Works Board, another State agency or a joint powers authority issues bonds to pay for the construction of facilities such as office buildings, university buildings or correctional institutions. These facilities are leased to a State agency or the University of California under a long-term lease which provides the source of payment of the debt service on the lease-purchase bonds. In some cases, there is not a separate bond issue, but a trustee directly creates certificates of participation in the State's lease obligation, which are marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the Constitutional provisions which require voter approval. For purposes of this section of the Official Statement and the tables on pages A-17 and A-18, "lease-purchase debt" or "lease-purchase financing" means principally bonds or certificates of participation for capital facilities where the rental payments providing the security are a direct or indirect charge against the General Fund and also includes revenue bonds for a State energy efficiency program secured by payments made by various State agencies under energy service contracts. Certain of the lease-purchase financings are supported by special funds rather than the General Fund (see "STATE FINANCES--Sources of Tax Revenue"). The table does not include equipment leases or leases which were not sold, directly or indirectly, to the public capital market. The State had \$5,791,268,620 of General Fund-supported lease-purchase debt outstanding at October 1, 1996. The State Public Works Board, which is authorized to sell lease revenue bonds, had \$1,079,916,000 authorized and unissued as of October 1, 1996. See Note 12 to the Financial Statements, Exhibit 1 to Appendix A, for additional information on State lease commitments.

Non-Recourse Debt - Certain State agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from State revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. There are 14 agencies and authorities authorized to issue revenue obligations (excluding lease-purchase debt). State agencies and authorities had \$20,909,323,300 aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 1996, as further described in the table on Page A-19.

Short-Term Borrowings

As part of its cash management program, the State has regularly issued short-term obligations to meet cash flow needs. The following table shows the amount of revenue anticipation notes ("Notes") and revenue anticipation warrants ("Warrants") issued over the past five fiscal years and the current fiscal year. Between spring 1992 and summer 1994, the State had depended upon external borrowing, including borrowings extending into the subsequent fiscal year, to meet its cash needs, including repayment of maturing Notes and

Warrants. The State did not have to resort to such cross-year borrowing during the 1995-96 Fiscal Year. See "STATE FINANCES--State Warrants," "PRIOR FISCAL YEARS' FINANCIAL RESULTS" and "CURRENT STATE BUDGET" below.

The State Treasurer is working closely with the State Controller and the Department of Finance to manage the State's cash flow on a regular basis, with the goal of reducing the State's external cash flow borrowing. The three offices are also working to develop programs to use commercial paper in whole or in part for the State's cash flow borrowing needs, and for construction period financing for both general obligation bond-funded and lease-revenue bond-funded projects. The first commercial paper program, for general obligation bonds, was implemented in April, 1996.

The State issued \$3.0 billion of revenue anticipation notes for the 1996-97 Fiscal Year on August 6, 1996, which mature on June 30, 1997.

**State of California
Revenue Anticipation Notes and Warrants Issued
Fiscal Years 1991-92 to 1996-97**

<u>Fiscal Year</u>	<u>Type</u>	<u>Principal Amount (Billions)</u>	<u>Date Issued</u>	<u>Maturity Date</u>
1991-1992	Interim Notes	\$1.65	July 23, 1991	August 15, 1991
	Notes Series A	1.0	August 15, 1991	March 17, 1992
	Notes Series B	2.1	August 15, 1991	June 30, 1992
	Notes Series C-K	1.0	August 15, 1991	March 3, 1992
	Notes	2.0	March 3, 1992	June 30, 1992
	Warrants	0.475	June 25, 1992	July 24, 1992
1992-1993	Interim Notes	3.3	September 4, 1992	October 8, 1992
	Notes Series A	0.5	October 8, 1992	January 13, 1993
	Notes Series B	0.75	October 8, 1992	April 26, 1993
	Notes Series C	2.5	October 8, 1992	May 12, 1993
	Notes Series D-H	1.25	October 8, 1992	April 26, 1993
	Notes Series A	3.0	April 26, 1993	June 24, 1993
	Warrants	2.0	June 23, 1993	December 23, 1993
1993-1994	Notes Series A-B	2.0	July 28, 1993	June 28, 1994
	Warrants Series A	1.2	February 23, 1994	December 21, 1994
	Warrants Series B	2.0	February 23, 1994	July 26, 1994
1994-1995	Warrants Series C-D	4.0	July 26, 1994	April 25, 1996
	Notes Series A-C	3.0	August 3, 1994	June 28, 1995
1995-1996	Notes	2.0	April 25, 1996	June 28, 1996
1996-1997	Notes Series A-C	3.0	August 6, 1996	June 30, 1997

SOURCE: State of California, Office of the Treasurer.

Authorized and Outstanding State Debt

The tables which follow provide information on outstanding State debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for State general obligation and lease-purchase bonds, and authorized and outstanding State revenue bonds. For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the State expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the State to pay principal and interest on the bonds from the General Fund.

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